

Legislative Audit Division

State of Montana



Report to the Legislature

November 1998

Financial Audit

For the Fiscal Year Ended June 30, 1998

Montana Board of Housing

Department of Commerce

We performed a financial audit of the Montana Board of Housing for the fiscal year ended June 30, 1998. This report contains the audited financial statements and accompanying notes for fiscal year 1997-98. We issued an unqualified opinion on the financial statements of the board. The opinion means the reader may rely on the financial statement information presented.

This audit report contains no recommendations.

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 135, State Capitol
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Helena MT 59620-1705

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John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

November 1998

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial audit of the Montana Board of Housing for fiscal year 1997-98. The objectives of our financial audit included determining if the board's financial statements presented fairly its financial position and results of operations at and for the period ending June 30, 1998, with comparative combined totals for 1997. We tested compliance with state and federal laws that have a direct and material impact on the financial statements. Additional compliance testing for the program is included in our biennial audit of the Department of Commerce.

The Board of Housing was created by the Montana Housing Act of 1975. The board is attached to the Housing Division within the Department of Commerce. Montana Board of Housing's purpose is to provide decent, safe, sanitary and affordable housing for lower income individuals and families in the State of Montana. The board accomplishes this purpose by issuing tax-exempt bonds to provide funds to purchase home mortgages, administering federal housing programs and working in partnership with other housing providers throughout Montana.

In fiscal year 1997-98, the board provided over \$81 million in single family mortgage financing, helping 1,235 families to own their own home. The board also allocated nearly \$2 million in Low Income Housing Tax Credits for 480 units of rental housing. At June 30, 1998, the board had approximately \$423 million of outstanding single family mortgage loans and approximately \$14 million of outstanding multifamily mortgage loans.

On page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion on those financial statements which means the reader can rely on the presented information. The board's response to this report is on page B-1.

In addition to the annual financial audit of the board, our office performs special engagements for the Board of Housing throughout the year. These include agreed-upon procedures for the board and its underwriter to evaluate revenue, expense, and fund equity information when selling bonds, and reviews of preliminary and official statements to allow inclusion of our Independent Auditor's Report within the statements when the board issues bonds. We have also performed agreed-upon procedures that are conducted at selected Board of Housing loan servicers to assist the board in evaluating the mortgage receivable information provided by the board's loan servicers and to determine compliance with contract requirements.

We thank the Board of Housing and their staff and the Department of Commerce staff for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat
Legislative Auditor

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Appointed and Administrative Officials

Montana Board of Housing Members

Bob Thomas, Chairman
Robert Savage, Vice Chairman
William Oser, Secretary
Ronda Carpenter
Waneeta Farris
Barbara Hamlin
Tom Welch

Administrative Officials:

Department of Commerce

Peter S. Blouke, Ph.D., Director

Board of Housing

Maureen Rude, Executive Director
Kelly Rusoff, Accounting and Finance Manager
Bruce Brensdaal, Multifamily Program Manager
Bob Morgan, Single Family Program Manager

For further information on the Montana Board of Housing contact
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Members of the audit staff involved in this audit were Jeane Carstensen-Garrett, Emlyn Neuman-Javornik, and Lorry Parriman.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

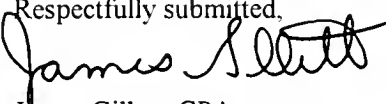
We have audited the accompanying Combining Balance Sheet of the Enterprise Fund of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 1998 and 1997, and the related Combining Statement of Revenues, Expenses and Changes in Retained Earnings and the Combining Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 1998 and 1997, and the results of operations and its cash flows for the fiscal years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Single Family Combining Balance Sheet as of June 30, 1998, and the related Single Family Combining Statement of Revenues, Expenses and Changes in Retained Earnings for the fiscal year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The other data included in this report were not audited by us, and accordingly, we express no opinion on such data.

Respectfully submitted,

James Gillett, CPA
Deputy Legislative Auditor

September 25, 1998

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING BALANCE SHEET
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	<u>1998</u>	<u>Combined Totals</u> 1997 (As Restated) (Note 17)
ASSETS					
Cash and cash equivalents (Note 2)	\$ 1,839,428	\$ 129,995	\$1,381,585	\$ 3,351,008	\$ 3,165,800
Investments (Note 4)	168,514,492	5,749,460	-	174,263,952	184,797,783
Mortgage Loans receivable (Note 5)	422,676,108	13,831,930	653,879	437,161,917	413,240,571
Interest receivable	4,474,760	128,073	107,886	4,710,719	4,397,211
Deferred bond issuance costs, net	5,641,619	225,168	-	5,866,787	5,978,092
Fixed assets (Note 8)	126,148	2,562	13,800	142,510	117,114
Prepaid expense	33,699	1,413	2,236	37,348	38,445
Accounts Receivable	-	-	-	-	849
Cash Collateral for Securities Lending	36,158	-	73,654	109,812	40,729
	<u>\$603,342,412</u>	<u>\$20,068,601</u>	<u>\$2,233,040</u>	<u>\$625,644,053</u>	<u>\$611,776,594</u>
LIABILITIES AND RETAINED EARNINGS					
Liabilities:					
Accounts payable	\$312,773	\$3,898	\$3,802	\$320,473	\$301,454
Premium on bonds payable	-	-	-	-	357,100
Cost of issuance payable	86,959	-	-	86,959	139,041
Accrued interest-bonds payable	4,081,867	362,293	-	4,444,160	5,054,245
Bonds payable, net (Note 9)	508,609,967	13,997,083	-	522,607,050	515,916,480
Deferred Refunding Costs (Note 15)	804,680	-	-	804,680	728,351
Arbitrage tax payable to U.S. Treasury Department (Note 13)	252,034	-	-	252,034	86,263
Accrued compensated absences	29,796	4,113	4,114	38,023	41,119
Collateral for Securities Lending	36,158	-	73,654	109,812	40,729
Total Liabilities	<u>514,214,234</u>	<u>14,367,387</u>	<u>81,570</u>	<u>528,663,191</u>	<u>522,664,782</u>
Retained Earnings:					
Reserved Retained Earnings-Pledged to Bondholders (Note 1 & 11):					
Unrealized gains on investments	3,003,707	446	-	3,004,153	-
Single Family Programs	62,995,423	-	870,691	63,866,114	61,266,913
Various Recycled Mortgage Programs	22,484,048	-	-	22,484,048	21,355,448
Multifamily Programs	-	3,590,767	-	3,590,767	4,001,821
Multifamily Project Commitments	220,000	2,110,001	-	2,330,001	1,297,596
Reverse Annuity Mortgage Program	350,000	-	1,081,181	1,431,181	1,145,564
Cash Assistance Program	75,000	-	199,598	274,598	44,470
Total Retained Earnings	<u>89,128,178</u>	<u>5,701,214</u>	<u>2,151,470</u>	<u>96,980,862</u>	<u>89,111,812</u>
Total Liabilities and Retained Earnings	<u>\$603,342,412</u>	<u>\$20,068,601</u>	<u>\$2,233,040</u>	<u>\$625,644,053</u>	<u>\$611,776,594</u>

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	<u>1998</u>	<u>Combined Totals</u> 1997 (As Restated) (Note 17)
REVENUES:					
Interest income-mortgage loans	\$ 30,797,039	\$ 1,083,948	\$ 35,328	\$31,916,315	\$ 29,520,689
Interest income-investments	9,556,682	289,132	66,556	9,912,370	10,058,483
Fee income	32,483	1,735	45,900	80,118	166,170
Net increase (decrease) in fair value of investments	2,853,272	3,213	-	2,856,485	-
Gain on sale of investments	-	-	-	-	164,671
Other income	886	10,820	130	11,836	9,636
Securities Lending Income	<u>1,952</u>	<u>-</u>	<u>2,919</u>	<u>4,871</u>	<u>5,970</u>
Total revenues	<u>\$ 43,242,314</u>	<u>\$1,388,848</u>	<u>\$150,833</u>	<u>\$ 44,781,995</u>	<u>\$ 39,925,619</u>
EXPENSES:					
Interest on bonds	\$ 32,313,747	\$ 872,655	\$ -	\$ 33,186,402	\$ 31,840,583
Servicer fees	1,584,942	17,716	-	1,602,658	1,434,689
Amortization of bond issuance costs	366,553	13,017	-	379,570	486,603
General and administrative	1,033,358	76,812	65,543	1,175,713	1,149,228
Securities Lending Expense	1,904	-	2,847	4,751	5,649
Arbitrage rebate tax (Note 13)	92,868	-	-	92,868	48,284
Loss on redemption (Note 10)	<u>440,871</u>	<u>-</u>	<u>-</u>	<u>440,871</u>	<u>439,637</u>
Total Expenses	<u>35,834,243</u>	<u>980,200</u>	<u>68,390</u>	<u>36,882,833</u>	<u>35,404,673</u>
Net operating income before operating transfers	7,408,071	408,648	82,443	7,899,162	4,520,946
Nonoperating expenses					
Loss on disposal of fixed assets	(30,799)	(3,440)	(4,589)	(38,828)	-
Operating Transfers in	-	-	150,000	150,000	70,000
Operating Transfers out	(150,000)	-	-	(150,000)	(70,000)
Net income	<u>7,227,272</u>	<u>405,208</u>	<u>227,854</u>	<u>7,860,334</u>	<u>4,520,946</u>
Retained Earnings, beginning of year:					
Reserved Retained Earnings-Pledged to Bondholders	81,888,779	5,299,417	1,923,616	89,111,812	84,590,866
Prior Period Adjustments (Note 18)	12,127	(3,411)	-	8,716	-
Retained Earnings, end of year:					
Reserved Retained Earnings-Pledged to bondholders	<u>\$ 89,128,178</u>	<u>\$ 5,701,214</u>	<u>\$ 2,151,470</u>	<u>\$ 96,980,862</u>	<u>\$ 89,111,812</u>

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
 " ENTERPRISE FUND
 COMBINING STATEMENT OF CASH FLOWS
 June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	<u>1998</u>	<u>Combined Totals</u> 1997 (As Restated) (Notes 17 & 4)
CASH FLOWS FROM OPERATING ACTIVITY					
Receipts for Sales and Services	\$ -	\$ -	\$45,900	\$45,900	\$ 83,089
Collections on Loans					
And Interest on Loans	87,249,359	2,340,852	75,715	89,665,926	72,841,143
Cash payments for Loans	(81,272,988)	(388,036)	(199,340)	(81,860,364)	(101,672,380)
Payments to Suppliers for Goods and Services	(2,168,994)	(63,433)	(28,719)	(2,261,146)	(2,125,683)
Payments to employees	(400,526)	(32,213)	(32,839)	(465,578)	(408,516)
Other Operating Revenues	<u>886</u>	<u>10,820</u>	<u>130</u>	<u>11,836</u>	<u>174,307</u>
Net Cash Provided (Used) for Operating Activities	<u>3,407,737</u>	<u>1,867,990</u>	<u>(139,153)</u>	<u>5,136,574</u>	<u>(31,108,040)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Payment of Principal and Interest on Bonds and Notes	(77,693,547)	(1,138,156)	-	(78,831,703)	(111,917,582)
Proceeds from Issuance of Bonds and Notes	51,780,000	-	-	51,780,000	157,250,000
Payment of Bond Issuance Costs	(687,110)	-	-	(687,110)	(1,760,184)
Premium Paid on Refunding Bonds	(409,100)	-	-	(409,100)	-
Deferred Gain on Refunding Bonds	-	-	-	-	796,913
Transfers in (out)	(150,000)	-	150,000	-	-
Net Cash Provided (Used) for Noncapital Financing Activities	<u>(27,159,757)</u>	<u>(1,138,156)</u>	<u>150,000</u>	<u>(28,147,913)</u>	<u>44,369,147</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition of Fixed Assets	(98,000)	-	-	(98,000)	(34,048)
Net Cash Used for Capital and Related Financing Activities	<u>(98,000)</u>	<u>-</u>	<u>-</u>	<u>(98,000)</u>	<u>(34,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investments	(540,961,871)	(11,907,442)	-	(552,869,313)	(583,379,159)
Proceeds from Sales or Maturities of Investments	555,485,510	10,921,787	-	566,407,297	559,172,448
Interest on Investments	9,399,229	290,706	66,628	9,756,563	9,630,853
Net Cash Provided by (Used for) Investing Activities	<u>23,922,868</u>	<u>(694,949)</u>	<u>66,628</u>	<u>23,294,547</u>	<u>(14,575,858)</u>
Net Increase (Decrease) in Cash And Cash Equivalents	72,848	34,885	77,475	185,208	(1,348,799)
Cash and Cash Equivalents, beginning bal.	<u>1,766,580</u>	<u>95,110</u>	<u>1,304,110</u>	<u>3,165,800</u>	<u>4,514,599</u>
Cash and Cash Equivalents, ending bal.	<u>\$ 1,839,428</u>	<u>\$ 129,995</u>	<u>\$ 1,381,585</u>	<u>\$ 3,351,008</u>	<u>\$ 3,165,800</u>

See accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
ENTERPRISE FUND
COMBINING STATEMENT OF CASH FLOWS
June 30, 1998 with comparative combined totals for 1997

	Single Family Mortgage Program funds	Multifamily Mortgage Program Funds	Housing Trust Fund	<u>1998</u>	<u>Combined Totals</u> 1997 (As Restated) (Notes 17 & 4)
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating Income	\$ 7,408,071	\$ 408,648	\$ 82,443	\$ 7,899,162	\$4,520,946
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	28,009	557	5,209	33,775	30,394
Amortization	807,424	13,017	-	820,441	926,240
Interest Expense	32,313,747	872,655	-	33,186,402	31,840,583
Interest on Investments	(9,556,730)	(289,132)	(66,628)	(9,912,490)	(10,058,804)
Arbitrage Rebate Tax	92,868	-	-	92,868	48,286
Incr. in fair value of investments	(2,853,272)	(3,213)	-	(2,856,485)	-
Change in Assets and Liabilities:					
Decr (Incr) in accounts receivable	849	-	-	849	1,102
Decr (Incr) in Mortgage Loans Receivable	(24,770,930)	876,673	(130,697)	(24,024,954)	(58,116,445)
Decr (Incr) in other assets	(184,581)	(9,530)	(28,414)	(222,525)	(361,207)
Incr (Decr) in Accounts Payable	24,807	(2,664)	(3,124)	19,019	26,220
Incr (Decr) in Deferred Revenue	104,121	(513)	-	103,608	30,197
Incr (Decr) in Compensated Absences Payable	(6,646)	1,492	2,058	(3,096)	4,448
Net Cash Provided by (Used for) Operating Activities	<u>\$3,407,737</u>	<u>\$1,867,990</u>	<u>\$(139,153)</u>	<u>\$5,136,574</u>	<u>\$(31,108,040)</u>

See accompanying notes to financial statements.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1998 and 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:

The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Housing Division, Department of Commerce.

Basis of Presentation:

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles whereby revenues are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period.

Reporting Entity:

In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting entity. The financial statements of the Board of Housing are presented as a component unit in the State of Montana's General Purpose Financial Statements. The enterprise fund of the Board of Housing is part of but does not comprise the entire proprietary fund type of the State of Montana. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:

To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, retained earnings, revenues, and expenses. The Board is classified as an enterprise fund, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Reserved Retained Earnings (pledged to bondholders) represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Reserved Retained Earnings: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Because of the nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentures. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 4 to the financial statements. Also, as disclosed in Note 5 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting - continued

Reserved Retained Earnings also include reserved and committed funds for various programs established by the Board.

Fund Structure:

Single Family Mortgage Program Funds - these funds, established under ten separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Development (RD).

The accompanying combining financial statements present the Single Family Mortgage Program Funds in one column. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indenture.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992, must be insured by the Federal Housing Administration.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners and the Home Buyers Cash Assistance Program (CAP) to assist lower income individuals and families in the purchase of a single family home. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Cash and Cash Equivalents:

For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash held by trustees, and cash invested in the state's short term investment pool.

Investments:

Investment of the Board's monies is made in accordance with the Board's investment policy, dated January 9, 1996 (reviewed January 1997 & 1998), which is in compliance with the trust indentures and the laws of the State of Montana.

Permitted investments are U.S. treasury obligations, U.S. agency obligations, debentures, or notes,

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments - continued:

certificates of deposits or time deposits, insured by the FDIC or fully insured by U.S. treasury or agency obligations which have a market value at least equal to the amount of such deposits, and investment contracts fully collateralized in an amount equal to 102% of the principal and interest of the agreement.

In no case shall an investment result in a reduction of ratings by Standard & Poor's Rating Services or Moody's Investor Services.

From 1988 to 1992 the Board invested in guaranteed investment contracts that had underlying collateral equal to 100% of the principal and interest of the agreements.

Investments, which are generally intended to be held to maturity, are reported at "fair value" , as required by GASB 31.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RD (Rural Development). Guidelines to minimize credit risk are established by FHA, VA, RD and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Fixed Assets:

Fixed assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 5 to 10 years. The majority of fixed assets consists of computers and software.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon redemption of the bonds.

Compensated Absences:

The Boards' employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

NOTE 2. CASH AND CASH EQUIVALENTS

As disclosed in note 4, the Board's investments are categorized to give an indication of the level of risk assumed by the Board. These same risk categories are used below for cash and cash equivalents. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the State's Short Term Investment Pool were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 1998 and 1997, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

Fund	Category			Totals	
	1	2	3	1998	1997
Program Funds*	\$ 3,083,243	\$ -	\$ -	\$3,083,243	\$3,072,412
Deposited with State Treasury	267,765	-	-	267,765	93,388
	<u>\$ 3,351,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,351,008</u>	<u>\$ 3,165,800</u>

*Cash deposits are held at the trustee bank. Based on the opinion of the Board's bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to \$100,000 of insurance coverage.

The units held in the State's Short Term Investment Pool (STIP) are valued at \$1 per unit. The market value of STIP is equal to the cost. STIP securities include Banker's Acceptances, Commercial Paper, Corporate Obligations, Montana Certificates of Deposit, Government Securities, and Repurchase Agreements.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 3. SECURITIES LENDING

The Board of Housing invests in the State's Short-Term Investment Pool. As part of the pool, administered by the Board of Investments the Board participates in securities lending transactions. Under GASB 28, the following disclosures are required:

Under the provisions of state statutes, the Board of Investments (BOI) has, via, a Securities Lending Authorization Agreement authorized a custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, BOI receives a fee and the custodial bank must initially receive collateral equal to 102% of the market value of the loaned securities and maintain collateral equal to not less than 100% of the market value of the loaned security. BOI retains all rights and risks of ownership during the loan period.

During fiscal years 1998 and 1997, State Street lent, on behalf of BOI, certain securities held by State Street, as custodian, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

BOI did not impose any restrictions during fiscal year 1998 and 1997 on the amount of loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 1998 and 1997. More over, there were no losses during fiscal years 1998 and 1997 resulting from a default of the borrowers or State Street. During fiscal years 1998 and 1997, BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which BOI could not determine. On June 30, 1998 and June 30, 1997, BOI had no credit risk exposure to borrowers.

NOTE 4. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the Counterpart, or by its trust department or agent but not in the Board's name. The Board's investments at June 30, 1998 and 1997 consisted of Category 2 investments:

	<u>1998</u>		<u>1997*</u>	
	Reported Amount	Fair Value	Reported Amount	Fair Value
U.S. Treasury	\$28,063,359	\$28,063,359	\$27,920,990	\$28,453,061
U.S. Agency	\$50,911,947	50,935,165	46,007,350	\$46,465,000
Repurchase agreements and Investment Contracts-- Collateralized	95,288,646	95,288,646	110,869,443	110,869,443
Total	<u>\$ 174,263,952</u>	<u>\$174,287,170</u>	<u>\$184,797,783</u>	<u>\$185,787,504</u>

*Fiscal year 1997 reported investments were not restated to show the effects of GASB 31. A prior period adjustment was made to fund balance. (See note 18)

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 4. INVESTMENTS-Continued

All repurchase agreements and investment contracts were fully collateralized with securities and cash held by the provider's agent and confirmed by the trustee as required by the bond indentures. Securities underlying the repurchase agreements have a market value of at least 102% of the cost of repurchase agreement. Securities underlying the investment contracts have a market value of at least 100% of the cost of the investment contract plus accrued interest.

Under GASB 31, certain investments are to be reported at fair value. The Board values all of its investments that have a maturity date of over one year at fair value. Those investments that have a maturity date of less than one year are valued at amortized cost. The fair values were based on market prices provided by the Board's trustee.

Portions of cash and investments, valued at amortized cost, are restricted to uses specified by applicable bond indentures. Amounts are restricted as follows:

	<u>1998</u>		<u>1997</u>	
	Single family Mortgage Program Funds	Multifamily Mortgage Program funds	Single family Mortgage Program funds	Multifamily Mortgage Program Funds
Funds				
Debt service reserve	\$44,232,155	\$873,399	\$47,218,140	\$897,792
Mortgage reserve	<u>\$3,852,818</u>	<u>\$216,434</u>	<u>\$3,374,760</u>	<u>\$266,637</u>
Total	<u>\$48,084,973</u>	<u>\$1,089,833</u>	<u>\$50,592,900</u>	<u>\$1,164,429</u>

As of June 30, 1998 original bond proceeds of \$60,933,420.11 was still on deposit in the 1997A & 1998A program acquisition funds to be used for the purchase of Single Family Mortgage loans.

As of June 30, 1998 there was \$26,298,618 in reservations outstanding in the 1997A and 1998A bond issues. The Board also had \$15,000,000 remaining, in 1998A, which will be used for special set aside programs. There was also approximately \$15,600,000 remaining in the 1997A issue. The money in the 1997A issue was, substantially, committed to the purchase of Single Family loans after June 30.

NOTE 5. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	<u>1998</u>	<u>1997</u>
Mortgage loan receivables:		
Single Family Program	\$427,457,798	\$402,686,868
Multifamily program	13,909,264	14,785,936
Housing Trust Program	<u>653,879</u>	<u>523,183</u>
	442,020,941	417,995,987
Net mortgage discounts and deferred reservation fees	(4,809,024)	(4,705,416)
Allowance for loan losses and real estate owned	(50,000)	(50,000)
	<u>\$437,161,917</u>	<u>\$413,240,571</u>

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 6. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 1996	\$50,000
Provision	10,433
Less: Net loans charged off	<u>(10,433)</u>
Balance, June 30, 1997	50,000
Provision	10,751
Less: Net loans charged off	<u>(10,751)</u>
Balance, June 30, 1998	<u>\$ 50,000</u>

The allowance for loan losses includes \$30,000 at June 30, 1998 and \$30,000 at June 30, 1997 for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board held one real estate owned property during 1998 and none during 1997.

NOTE 7. MULTIFAMILY ESCROW AND RESERVE DEPOSITS HELD IN TRUST

For the years ended June 30, 1998 and 1997 escrow and reserve deposits for certain Multifamily mortgages were held in trust for the mortgagor for insurance, real estate taxes and a reserve for replacement under the terms of certain Regulatory Agreements between the Board and the mortgagors. The escrows amounted to \$463,724 and \$395,956 at June 30, 1998 and 1997 respectively. The escrows are invested with the earnings credited to the mortgagor of the project, not the Board. The escrow and related liabilities are not reflected in the accompanying combining balance sheet.

NOTE 8. FIXED ASSETS

Fixed assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	<u>1998</u>	<u>1997</u>
Furniture, fixtures, and equipment at cost	\$249,910	\$293,202
Accumulated depreciation	<u>(107,400)</u>	<u>(176,088)</u>
Net fixed assets	<u>\$ 142,510</u>	<u>\$ 117,114</u>

Depreciation expense included in general and administrative expense was \$33,775 and \$30,394 for the years ended June 30, 1998 and 1997 respectively.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 9. BONDS PAYABLE, NET

Bonds payable, net of premium or discount, consists of the following:

	<u>Original Amount</u>	<u>1998</u>	<u>1997</u>
Single Family I Mortgage Bonds:			
1997			
Series A-1 and A-2 serial and term bonds 4.00% to 6.15% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2011, and on December 1, 2016, December 1, 2017, December 1, 2027, December 1, 2029 December 1, 2030 and December 1, 2037	91,360,000	91,295,000	91,360,000
 Single Family II Mortgage Bonds:			
1983 -			
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in semi- annual installments commencing June 1, 2003 to June 1, 2010.	114,998,229	18,271,777	17,933,628
1984 -			
Series A, serial, term and CABS, 7.0% to 10.375% interest. Serial and term bonds refunded August 1, 1994. CABS are reported at accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010.	75,002,290	1,200,675	3,270,516

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1998</u>	<u>1997</u>
1985 - Series A, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS), CABS are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016; PROFITS are reported at accreted value, and begin to pay interest semi-annually, scheduled for redemption, in part, in semi-annual installments commencing December 1, 2010 to June 1, 2013.	\$ 39,999,625	7,937,515	\$ 10,473,037
1985 - Series B, term bonds maturing in scheduled semi-annual installments commencing June 1, 2006 to June 1, 2011.	74,996,862	3,250,000	3,590,000
1992 - Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing in scheduled semi-annual installments commencing June 1, 2003 to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000
1994 - Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	17,810,000	19,795,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	24,735,000	30,190,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments commencing December 1, 1996 to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	9,185,000	18,810,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1998</u>	<u>1997</u>
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments commencing December 1, 1997 to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	\$ 33,580,000	26,470,000	\$ 32,040,000
Series B-1 and B-2 serial and term bonds 4.20% to 6.40% maturing in scheduled semi-annual installments commencing June 1, 1998 to December 1, 2008, June 1, 2006 to December 1, 2008 and on December 1, 2014, December 1, 2021, December 1, 2027, and June 1, 2035.	\$ 88,000,000	86,535,000	88,000,000
1996-			
Series A-1 and A-2 serial and term bonds 4.70% to 6.375% maturing in scheduled semi-annual installments commencing June 1, 1999 to December 1, 2009, and on December 1, 2012, December 1, 2016, December 1, 2024, and June 1, 2028.	\$ 65,000,000	64,265,000	65,000,000
1998			
Series A-1 and A-2 serial and term bonds 4.00% to 5.45% maturing in scheduled semi-annual installments commencing June 1, 2001 to December 1, 2012, and on December 1, 2016, June 1, 2019, June 1, 2027, June 1, 2030 and June 1, 2031.	\$ 51,780,000	<u>51,780,000</u>	<u>0</u>
Total bonds outstanding Single Family II		<u>333,959,967</u>	<u>311,622,181</u>
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	\$24,000,000	6,750,000	\$8,485,000
Subordinate Bonds	1,000,000	180,000	305,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

	<u>Original Amount</u>	<u>1998</u>	<u>1997</u>
NOTE 9. BONDS PAYABLE, NET - continued			
Single Family IV Mortgage Bonds:			
1989 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 7% to 9.2% interest, maturing in scheduled semi-annual installments to October 1, 2004, and on October 1, 2009, October 1, 2018 and October 1, 2020.			
Senior Bonds	24,000,000	7,565,000	9,130,000
Subordinate Bonds	1,000,000	215,000	325,000
Single Family V Mortgage Bonds:			
1990 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.525% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017 and October 1, 2021.			
Senior Bonds	24,000,000	8,760,000	10,475,000
Subordinate Bonds	1,000,000	320,000	455,000
Single Family VI Mortgage Bonds:			
1990 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 6.3% to 8.5% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017, and April 1, 2022.			
Senior Bonds	\$24,000,000	9,760,000	\$11,295,000
Subordinate Bonds	1,000,000	355,000	495,000
Single Family VII Mortgage Bonds:			
1990 -			
Series C-1 and C-2, serial and term bonds and subordinate bonds, 6.55% to 8.95% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2010, October 1, 2017, October 1, 2021, and April 1, 2022.			
Senior Bonds	24,000,000	9,130,000	10,850,000
Subordinate Bonds	1,000,000	370,000	520,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 9. BONDS PAYABLE, NET - continued

Single Family VIII Mortgage Bonds:

1991 -

Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.

Senior Bonds	24,000,000	11,655,000	13,875,000
Subordinate Bonds	1,000,000	475,000	610,000

Single Family IX Mortgage Bonds:

1991 -

Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.

Senior Bonds	24,000,000	12,365,000	14,480,000
Subordinate Bonds	1,000,000	510,000	630,000

Single Family X Mortgage Bonds:

1992 -

Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.

Senior Bonds	\$24,000,000	14,330,000	\$16,060,000
Subordinate Bonds	1,000,000	<u>615,000</u>	<u>685,000</u>

Total Single Family Mortgage bonds payable, net	<u>508,609,967</u>	<u>501,657,181</u>
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All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

Single Family I and II mortgage series bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 9. BONDS PAYABLE, NET - continued

	<u>Original Amount</u>	<u>1998</u>	<u>1997</u>
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	\$4,865,000	4,105,000	\$4,180,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	8,970,000	9,140,000
1996			
Series A, 4.10% to 6.15% interest, serial and term Bonds, maturing in scheduled annual installments to August 1 2001, and on August 1, 2016, and August 1, 2026.	<u>890,000</u>	<u>875,000</u>	<u>890,000</u>
Total bonds outstanding		13,950,000	14,210,000
Unamortized bond premiums		<u>47,083</u>	<u>49,299</u>
Total Multifamily Mortgage bonds payable, net		<u>13,997,083</u>	<u>14,259,299</u>
Combined total bonds payable, net		<u>\$522,607,050</u>	<u>\$515,916,480</u>

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

The following is a primary summary of bond principal and interest requirements as of June 30, 1998:

Year Ending <u>June 30:</u>	<u>Single Family Mortgage Program Funds</u>	<u>Multifamily Mortgage Program Funds</u>	<u>Principal Totals</u>	<u>Interest Totals</u>
1999	\$38,533,564	\$1,134,695	\$ 8,377,240	\$31,291,019
2000	38,823,895	1,135,162	9,495,034	30,464,023
2001	39,676,108	1,139,254	10,709,476	30,105,886
2002	39,847,031	1,137,015	11,312,251	29,671,795
2003	42,453,925	1,133,601	13,197,643	30,389,883
Thereafter	<u>926,748,380</u>	<u>21,433,641</u>	<u>469,468,323</u>	<u>478,713,698</u>
Total	<u>\$1,126,082,903</u>	<u>\$27,113,368</u>	<u>\$522,559,967</u>	<u>\$630,636,304</u>

Cash paid for interest expenses during the years ending June 30, 1998 and 1997 was \$30,886,406 and \$27,893,647.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
- June 30, 1998 and 1997**

NOTE 10. LOSS ON REDEMPTION

During the years ended June 30, 1998 and 1997 the Board redeemed Single Family mortgage program bonds prior to scheduled maturity as follows:

	<u>1998</u>	<u>1997</u>
Single Family I		
August 1	-	\$8,917,766
October 1	-	1,830,000
December 1	-	375,000
April 1	-	2,950,000
May 1	-	<u>2,975,000</u>
		<u>17,047,766</u>
Single Family II		
October 1	\$10,165,759	-
December 1	7,939,499	\$9,370,617
April 1	-	-
June 1	<u>9,437,040</u>	<u>2,495,555</u>
	<u>27,542,298</u>	<u>11,866,172</u>
Single Family III		
October 1	\$1,030,000	\$1,205,000
April 1	<u>615,000</u>	<u>525,000</u>
	<u>1,645,000</u>	<u>1,730,000</u>
Single Family IV		
October 1	\$645,000	\$840,000
April 1	<u>875,000</u>	<u>615,000</u>
	<u>1,520,000</u>	<u>1,455,000</u>
Single Family V		
October 1	\$840,000	\$885,000
April 1	<u>745,000</u>	<u>585,000</u>
	<u>1,585,000</u>	<u>1,470,000</u>

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)**

June 30, 1998 and 1997

NOTE 10. LOSS ON REDEMPTION - continued

	<u>1998</u>	<u>1997</u>
Single Family VI		
October 1	\$600,000	\$1,005,000
April 1	<u>820,000</u>	<u>1,105,000</u>
	<u>1,420,000</u>	<u>2,110,000</u>
Single Family VII		
October 1	\$685,000	\$1,340,000
April 1	<u>945,000</u>	<u>720,000</u>
	<u>1,630,000</u>	<u>2,060,000</u>
Single Family VIII		
October 1	\$1,075,000	\$1,030,000
April 1	<u>940,000</u>	<u>800,000</u>
	<u>2,015,000</u>	<u>1,830,000</u>
Single Family IX		
October 1	\$820,000	\$715,000
April 1	<u>1,100,000</u>	<u>590,000</u>
	<u>1,920,000</u>	<u>1,305,000</u>
Single Family X		
October 1	\$680,000	\$770,000
April 1	<u>795,000</u>	<u>525,000</u>
	<u>1,475,000</u>	<u>1,295,000</u>
 Total	 <u>\$40,752,298</u>	 <u>\$42,168,938</u>

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expended at time of redemption and are reported as losses on redemption of \$440,871 and \$439,637 in 1998 and 1997 respectively.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately \$4,360,048 from the issuance of the 1997 Series A Bonds and \$22,048,570 from the issuance of the 1998A bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

HUD Section 184-Indian Housing	\$690,922
Glacier Affordable Housing Program	2,651,152
City of Billings (203k)	329,576
Butte-Silverbow	1,680,000
District IX Human Resources	1,447,630
City of Kalispell	2,431,391
Neighborhood Housing Services	3,423,638
Ronan Housing Authority	544,275
Habitat for Humanity	672,812
Cash Assistance Program	1,621,482
Richland County	152,230
City of Billings-First Time Homebuyers	2,000,000
City of Lewistown	1,000,000
Missoula Housing Corp	1,402,000

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 11. COMMITMENTS AND CONTINGENCIES-continued

First Time Homebuyers Savings Account	1,000,000
Disabled Affordable Accessible Homeownership Program	<u>1,436,940</u>
Total Single Family commitments	<u>22,484,048</u>

Other Commitments--Single Family I

Samaritan House	220,000
Reverse Annuity Mortgage Program	350,000
Cash Assistance Program	<u>75,000</u>
	<u>645,000</u>

The Board has committed to purchase Multifamily Mortgages as noted below:

Financing Adjustment Factor Subsidy Setaside (restricted by agreement with HUD)	157,157
Superior Senior Housing	128,000
Pond Row Apartments	567,500
Clarkfork Manor	1,032,344
Parkside Apartments	<u>225,000</u>
Total Multifamily commitments	<u>\$2,110,001</u>

The Board has committed Housing Trust Funds as noted below:

Home buyers Cash Assistance Program-Disabled	\$32,932
Cash Assistance Program-VI	166,666
Reverse Annuity Mortgage Program	<u>1,081,181</u>
Total Housing Trust Fund commitments	<u>1,280,779</u>

These mortgage commitments will be funded through cash and investments.

During the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 12. EMPLOYEE BENEFIT PLANS

The Board of Housing participates in the Public Employees' Retirement System plan. The plan is a state-wide, cost-sharing multiple employer defined benefit retirement plan which covers all employees. Part-time employees have an option to belong to the retirement plan, depending upon hours worked. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from the following:

Public Employees Retirement Division
P.O. Box 200131
1712 Ninth Avenue
Helena, MT 59620-0131
406-444-3154

Contributions rates for the plan are required and determined by State law.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 12. EMPLOYEE BENEFIT PLANS-Continued

The contribution rates for 1998 expressed as a percentage of covered payroll are as follows:

<u>Employee</u>	<u>Employer</u>	<u>Total</u>
6.80%	6.80%	13.60%

The amounts contributed to the plan during the years ended June 30, 1996, 1997 and 1998 were equal to the required contribution each year. The amounts contributed by both the Board (including voluntary contributions by employees as permitted by State law) were as follows:

Fiscal Year	1996-	\$20,651
Fiscal Year	1997-	\$22,656
Fiscal Year	1998-	\$24,866

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, Chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, Chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. For plans in existence as of August 20, 1996, compliance is required by January 1, 1999.

NOTE 13. CONTINGENT ARBITRAGE REBATE TAX LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due.

Cash paid in arbitrage rebate taxes to the U.S. Treasury Department was \$0 for fiscal years ending June 30, 1998 and 1997, respectively. The liabilities are \$252,034 and \$86,263 as of June 30, 1998 and 1997, respectively.

NOTE 14. SUBSEQUENT EVENTS

On September 16, 1998, the board issued \$65,000,000 in bonds under the Single Family II Indenture.

**MONTANA BOARD OF HOUSING
ENTERPRISE FUND
NOTES TO THE FINANCIAL STATEMENTS(continued)
June 30, 1998 and 1997**

NOTE 15. REFUNDING AND DEFERRED BOND ISSUANCE COSTS

During fiscal year 1998, the Board issued \$51,780,000 in new debt. Series 1998A was issued on April 22, 1998. The 1998A issue partially refunded the 1985A bond issue. On June 1, 1998, the board redeemed \$2,600,000 of the 1985A bonds.

Due to immateriality the Board did not defer the costs related to the refunding. The costs associated with the refunding were \$64,535.98.

The refunding resulted in an economic gain of \$1,051,328 and a difference in cash flows of \$1,245,499.

NOTE 16. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

NOTE 17. FISCAL YEAR 1997 RESTATEMENTS

During fiscal year 1998, the Board changed the way in which it accounted for amortization of premiums and discounts on certain investments. In prior years, the Board's discount notes and treasury strips were carried at cost, and the amortization on unmatured investments was recorded as interest receivable. In fiscal year 1998, all investments are carried at amortized cost. Investments and interest receivable were restated, for fiscal year 1997. The restatement resulted in an increase in investments and a decrease in interest receivable of \$693,631.

NOTE 18. PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made in fiscal year 1998:

Rebate expense-Single Family IV (Adjust estimate to actual payment)	(\$72,905)
Increase in Fair Market value of investments-Single Family, Fy 97	85,032
Decrease in Fair Market value of investments-Multifamily, Fy 97	(3,411)
Total prior period adjustments	<u>\$ 8,716</u>

Under GASB 31, the Board elected to make a prior period adjustment rather than restate the 1997 financial information presented.

**MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1998**

ASSETS	Single Family I	Single Family II	Single Family III
Cash and cash equivalents	543,642	1,119,706	19,129
Investments	37,675,384	112,136,941	2,246,798
Mortgage loans receivable	76,942,430	279,150,004	5,110,872
Interest receivable—Investments	187,181	1,032,550	35,209
Interest receivable—Mortgages	520,359	1,893,055	49,789
Deferred bond issuance costs, net	1,040,281	3,584,137	77,101
Fixed assets	33,938	92,210	-
Prepaid expense	9,198	24,501	-
Cash Collateral for Securities Lending	11,571	24,587	-
	<hr/>	<hr/>	<hr/>
Total assets	<u>116,963,964</u>	<u>399,057,691</u>	<u>7,538,898</u>
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	55,570	217,076	3,137
Accrued interest bonds payable	446,747	2,079,388	135,052
Cost of Issuance Payable	-	86,959	-
Bonds payable, net	91,295,000	333,959,967	6,930,000
Less: Deferred refunding costs	(14,076)	818,756	-
Arbitrage tax payable to U.S.	-	-	-
Treasury Department	-	91,382	-
Accrued compensated absences	8,342	21,454	-
Cash Collateral for Securities Lending	11,571	24,587	-
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>91,803,154</u>	<u>337,299,569</u>	<u>7,068,189</u>
 RETAINED EARNINGS:			
Reserved Retained Earnings-			
Pledged to Bondholders			
Unrealized Gains		3,003,707	
Single Family Programs	21,276,770	39,509,407	470,709
Reverse Annuity Mortgag	350,000		
Multifamily Project Commitments	220,000		
Various Recycled Mortgage Programs	3,239,040	19,245,008	
Cash Assistance Program	75,000		
	<hr/>	<hr/>	<hr/>
Total Retained Earnings	<u>25,160,810</u>	<u>61,758,122</u>	<u>470,709</u>
Total Liabilities and Retained Earnings	<u>116,963,964</u>	<u>399,057,691</u>	<u>7,538,898</u>

**MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1998**

	Single Family IV	Single Family V	Single Family VI	Single Family VII
ASSETS				
Cash and cash equivalents	34,525	20,240	32,450	15,411
Investments	2,133,607	2,095,315	2,555,419	2,404,324
Mortgage loans receivable	5,838,698	7,259,926	7,828,443	7,409,367
Interest receivable—Investments	38,782	36,325	40,014	38,336
Interest receivable—Mortgages	56,719	63,094	62,931	68,539
Deferred bond issuance costs, net	98,124	111,590	123,592	111,183
Fixed assets	-	-	-	-
Prepaid expense	-	-	-	-
Cash Collateral for Securities Lending	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>8,200,455</u>	<u>9,586,490</u>	<u>10,642,849</u>	<u>10,047,160</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	3,485	4,236	5,632	4,175
Accrued interest bonds payable	158,224	175,182	194,464	186,091
Cost of Issuance Payable	-	-	-	-
Bonds payable, net	7,780,000	9,080,000	10,115,000	9,500,000
Less: Deferred refunding costs	-	-	-	-
Arbitrage tax payable to U.S. Treasury Department	97,583	40,140	22,929	-
Accrued compensated absences	-	-	-	-
Cash Collateral for Securities Lending	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>8,039,292</u>	<u>9,299,558</u>	<u>10,338,025</u>	<u>9,690,266</u>
RETAINED EARNINGS:				
Reserved Retained Earnings-				
Pledged to Bondholders				
Unrealized Gains				
Single Family Programs	161,163	286,932	304,824	356,894
Reverse Annuity Mortgage				
Multifamily Project Commitments				
Various Recycled Mortgage Programs				
Cash Assistance Program				
	<hr/>	<hr/>	<hr/>	<hr/>
Total Retained Earnings	<u>161,163</u>	<u>286,932</u>	<u>304,824</u>	<u>356,894</u>
Total Liabilities and Retained Earnings	<u>8,200,455</u>	<u>9,586,490</u>	<u>10,642,849</u>	<u>10,047,160</u>

**MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1998**

ASSETS	Single Family VIII	Single Family IX	Single Family X	Combined totals
Cash and cash equivalents	32,606	12,713	9,006	1,839,428
Investments	2,017,099	2,755,908	2,493,699	168,514,492
Mortgage loans receivable	10,392,290	10,342,028	12,402,050	422,676,108
Interest receivable--Investments	32,106	41,613	34,278	1,516,374
Interest receivable--Mortgages	80,613	79,203	84,084	2,958,386
Deferred bond issuance costs, net	153,034	155,557	187,020	5,641,619
Fixed assets	-	-	-	126,148
Prepaid expense	-	-	-	33,699
Cash Collateral for Securities Lending	-	-	-	36,158
Total assets	<u>12,707,748</u>	<u>13,387,020</u>	<u>15,210,137</u>	<u>603,342,412</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	7,411	6,105	5,946	312,773
Accrued interest bonds payable	220,991	233,692	252,036	4,081,867
Cost of Issuance Payable	-	-	-	86,959
Bonds payable, net	12,130,000	12,875,000	14,945,000	508,609,967
Less: Deferred refunding costs	-	-	-	804,680
Arbitrage tax payable to U.S. Treasury Department	-	-	-	252,034
Accrued compensated absences	-	-	-	29,796
Cash Collateral for Securities Lending	-	-	-	36,158
Total liabilities	<u>12,358,402</u>	<u>13,114,797</u>	<u>15,202,982</u>	<u>514,214,234</u>
RETAINED EARNINGS:				
Reserved Retained Earnings-				
Pledged to Bondholders				
Unrealized Gains				3,003,707
Single Family Programs	349,346	272,223	7,155	62,995,423
Reverse Annuity Mortgag				350,000
Multifamily Project Commitments				220,000
Various Recycled Mortgage Programs				22,484,048
Cash Assistance Program				75,000
Total Retained Earnings	<u>349,346</u>	<u>272,223</u>	<u>7,155</u>	<u>89,128,178</u>
Total Liabilities and Retained Earnings	<u>12,707,748</u>	<u>13,387,020</u>	<u>15,210,137</u>	<u>603,342,412</u>

**MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1998**

	Single Family I	Single Family II	Single Family III	Single Family IV
REVENUES:				
Interest Income-mortgage loans	4,336,707	19,939,235	592,467	669,097
Interest Income-Investments	3,370,460	4,927,809	130,372	145,724
Fee income	8,438	24,045	-	-
Gain (loss) on sale of investments	-	2,853,272	-	-
Other income	-	888	-	-
Securities Lending Income	-	1,952	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	<u>7,715,605</u>	<u>27,747,199</u>	<u>722,839</u>	<u>814,821</u>
EXPENSES:				
Interest on bonds	5,363,347	20,151,223	604,921	705,654
Servicer fees	221,572	1,065,977	25,443	28,040
Amortization of bond issuance costs	29,891	266,139	6,295	7,627
General and administrative	249,630	703,946	7,752	8,673
Arbitrage rebate tax	-	49,255	-	11,991
Loss on redemption	-	276,270	18,903	19,718
Securities Lending Expense	-	1,904	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	<u>5,864,440</u>	<u>22,514,714</u>	<u>663,314</u>	<u>781,703</u>
Net operating income (loss)	1,851,165	5,232,485	59,525	33,118
Loss on disposal of fixed assets	(8,069)	(24,730)	-	-
Net income (loss)	1,845,096	5,207,755	59,525	33,118
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholder	23,465,714	56,465,335	411,184	200,950
Prior Period adjustments	-	85,032	-	(72,905)
Transfers out	(150,000)	-	-	-
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholder	<u>25,160,810</u>	<u>61,758,122</u>	<u>470,709</u>	<u>161,163</u>

**MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1998**

REVENUES:	Single Family V	Single Family VI	Single Family VII
Interest Income-mortgage loans	730,704	811,353	786,754
Interest Income-Investments	152,181	162,543	159,890
Fee income	-	-	-
Gain (loss) on sale of investments	-	-	-
Other income	-	-	-
Securities Lending Income	-	-	-
Total revenues	<u>882,885</u>	<u>973,896</u>	<u>946,644</u>
 EXPENSES:			
Interest on bonds	769,645	845,994	822,539
Servicer fees	32,529	36,122	34,316
Amortization of bond issuance costs	7,665	8,187	8,037
General and administrative	9,980	10,684	10,500
Arbitrage rebate tax	26,151	5,471	-
Loss on redemption	19,969	17,753	19,558
Securities Lending Expense	-	-	-
Total expenses	<u>865,939</u>	<u>924,191</u>	<u>894,950</u>
Net operating income (loss)	16,946	49,705	51,694
Loss on disposal of fixed assets	-	-	-
Net income (loss)	16,946	49,705	51,694
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholde	269,986	255,119	305,200
Prior Period adjustments	-	-	-
Transfers out	-	-	-
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholde	<u>286,932</u>	<u>304,824</u>	<u>356,894</u>

**MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1998**

REVENUES:	Single Family VIII	Single Family IX	Single Family X	Combined totals
Interest Income-mortgage loans	935,891	971,042	1,023,789	30,797,039
Interest Income-Investments	170,660	183,007	154,036	9,556,682
Fee income	-	-	-	32,483
Gain (loss) on sale of investments	-	-	-	2,853,272
Other income	-	-	-	886
Securities Lending Income	-	-	-	1,952
Total revenues	<u>1,106,551</u>	<u>1,154,049</u>	<u>1,177,825</u>	<u>43,242,314</u>
EXPENSES:				
Interest on bonds	965,215	1,019,131	1,066,078	32,313,747
Servicer fees	43,730	45,733	51,480	1,584,942
Amortization of bond issuance costs	10,141	10,883	11,708	366,553
General and administrative	11,056	10,098	11,039	1,033,358
Arbitrage rebate tax	-	-	-	92,868
Loss on redemption	26,039	23,774	18,887	440,871
Securities Lending Expense	-	-	-	1,904
Total expenses	<u>1,056,181</u>	<u>1,109,619</u>	<u>1,159,192</u>	<u>35,834,243</u>
Net operating income (loss)	50,370	44,430	18,633	7,408,071
Loss on disposal of fixed assets	-	-	-	(30,799)
Net income (loss)	50,370	44,430	18,633	7,377,272
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholde	298,976	227,793	(11,478)	81,888,779
Pnor Period adjustments	-	-	-	12,127
Transfers out	-	-	-	(150,000)
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholde	<u>349,346</u>	<u>272,223</u>	<u>7,155</u>	<u>89,128,178</u>



MONTANA DEPARTMENT OF COMMERCE

Montana Board of Housing
836 Front Street
Helena, MT 59620-0528

Phone: (406) 444-3040
TDD: (406) 444-2975

Mr. James Gillett
Deputy Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620-1705

Dear Mr. Gillett:

Thank you for the opportunity to respond to the Audit Report on the 1997-98 Board of Housing Financial Statements. We are pleased with the unqualified opinion. We appreciate the hard work the staff has put in to the Board's audit. We also realize our audit is complicated due to the unique nature of our operation, and appreciate you and your staff's willingness to do all of the "special" work that goes along with our operation.

I am looking forward to speaking with the Audit Committee regarding the operations of the Board of Housing.

Sincerely,

A handwritten signature in cursive script that reads "Maureen J. Rude".

Maureen J. Rude
Executive Director

